

# U.S. Office Real Estate Market Summary | Q3 2023

## Office Real Estate Statistics

	National Average	Class A	Class B	12-Month Rent Growth	12-Month Net Absorption	12-Month Delivered Construction	Average Sales Price per SF
Vacancy	13.4%	18.6%	12.1%	0.6%	(58.1M) SF	\$61.6M	\$300 PSF
Rent	\$35.09 <sub>psf</sub>	\$44.86 <sub>psf</sub>	\$30.63 <sub>psf</sub>				

## Executive Summary

The office real estate market remains subdued as industry players across the country settle in for an extended down-period of demand. So far this year, tenants have vacated nearly 47 million SF more than they have occupied, putting 2023 on pace for the largest amount of negative net absorption on record. Vacancy is at a record 13.4% and is predicted to continue climbing for the foreseeable future.



### LEASING ACTIVITY

The adoption of hybrid work continues to lessen the amount of office space needed by in-person organizations. Sublease inventory is at 216 million SF, a 130% increase since 2019.



### RENT

The competitive reality facing landlords has yielded longer periods of free rent and higher tenant improvement allowances for office space users. The most pronounced downward pressure on rents continues to be sublease space available at significantly discounted rates.



### NEW BUILDS

About 60 million SF of office real estate developments are projected to enter the market this year, the most delivered since 2009. This is expected to further tip the market in the tenant's favor.



### SALES

The office sector continues to witness a significant decrease in transaction volume. Though sales have slightly edged past the pandemic's lowest points, Q2 2023 concluded with transaction volumes 66% below the five-year average leading up to 2019. This mirrors the figures from the second quarter of 2010.



### LABOR & ECONOMY

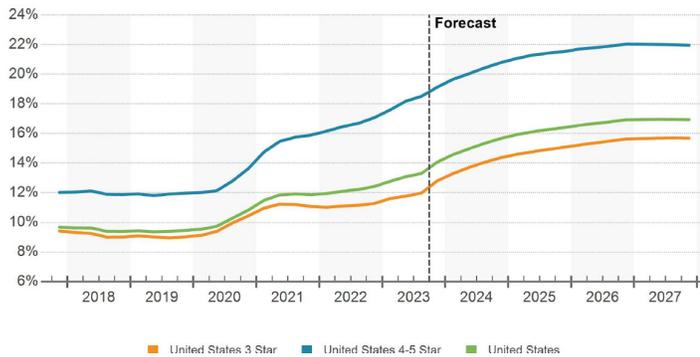
Many economic professionals have pushed back expectations of a mild recession but still see one to begin later this year or early next year. A pull back of consumer spending and business investment is a direct result of higher borrowing costs and weakening demand. The Federal Reserve has raised its overnight lending rate by 525 basis points, the most aggressive tightening program in history.

# Office Leasing Outlook

The average lease size is 20% below its pre-pandemic norm. The record high amount of sublease space available is placing even further downward pressure on asking rents around the country. One bright spot of the office real estate market is Class A properties and buildings delivered since 2015, which have seen positive net absorption throughout the pandemic. These buildings typically offer highly valued features, including premium amenities, natural lighting, top-tier locations, and floor plates suited to the contemporary workplace environment. Meanwhile, older properties suffer from an extreme lack of demand. The future of the office real estate market is highly uncertain, exacerbated by the fact that 65% of leases are expiring over the next five years.

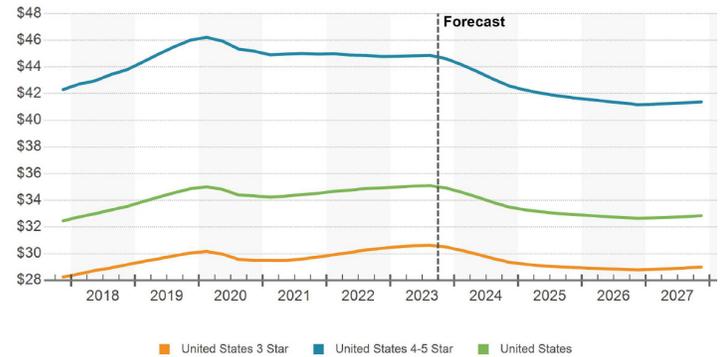
## Leasing

VACANCY RATE

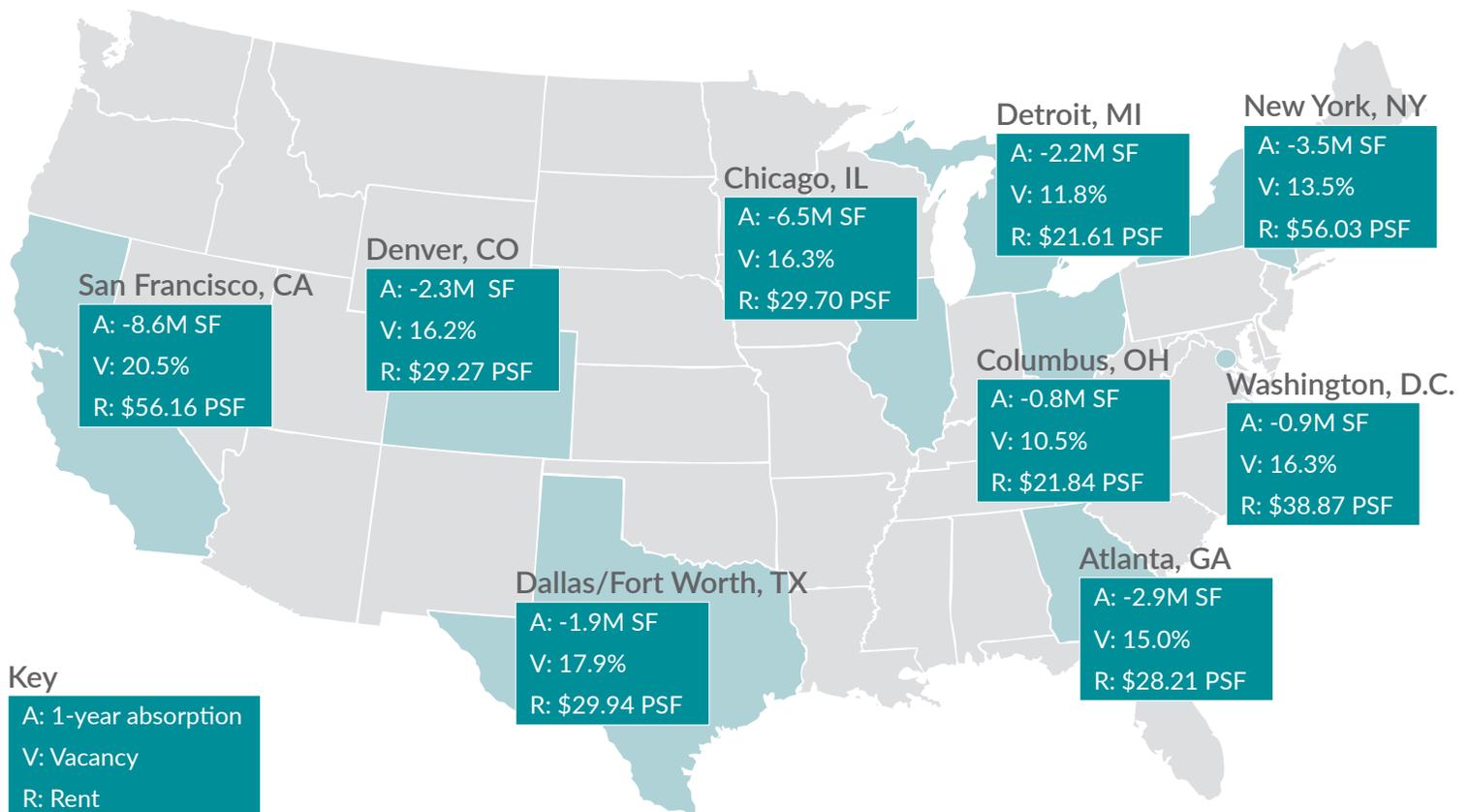


## Rent

MARKET RENT PER SQUARE FEET



## Metrics from Select Metros



# Office Construction & Deliveries

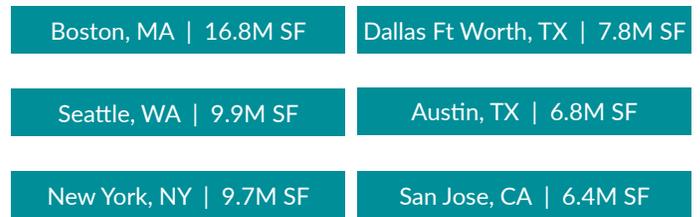
Construction starts on office buildings have been subdued throughout the pandemic era. At 7 million SF, groundbreakings in Q2 2023 were the lowest since the Great Recession. About 115 million SF of office space is still under development, which will add to the oversupply of high-quality space from which tenants in the market will be able to choose.

The conversion of office buildings to alternative uses has been taking shape in different markets. Major metropolitan areas, such as Chicago, New York, and Washington, D.C., have recommended using public funds to convert office buildings to multifamily housing. A national conversion strategy has yet to emerge, as most successful conversions have been isolated to specific metropolitan areas.

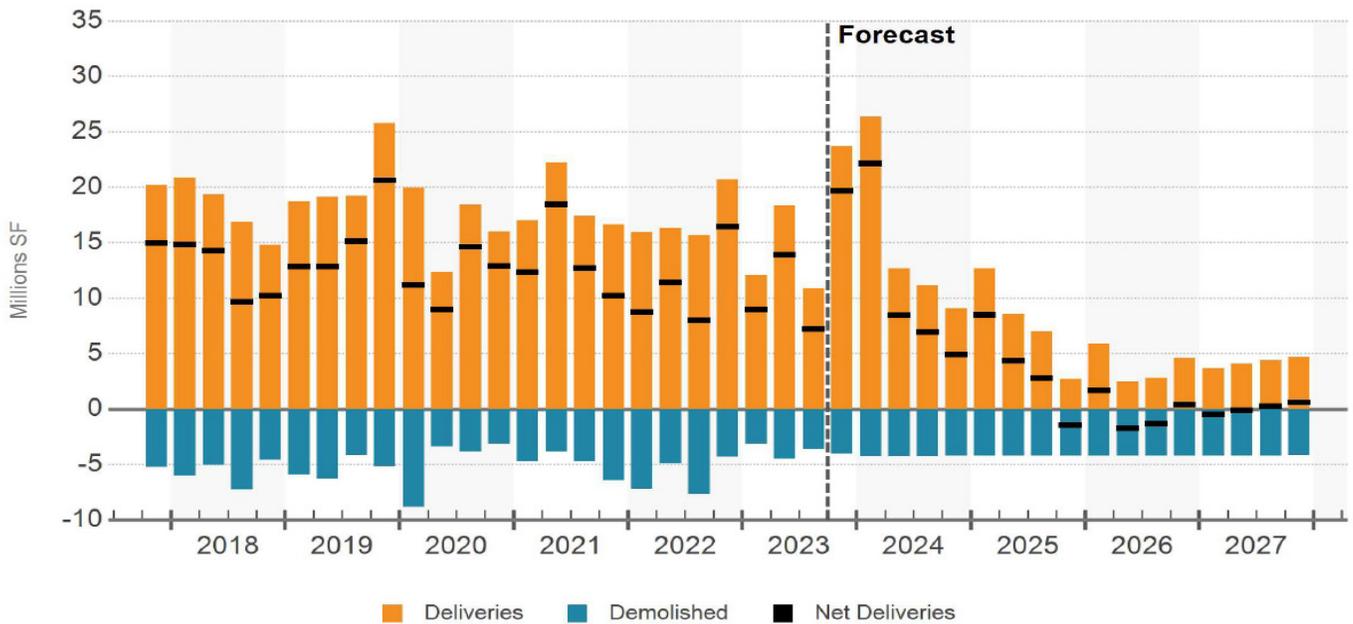
## National Metrics



## Top Metros Under Construction



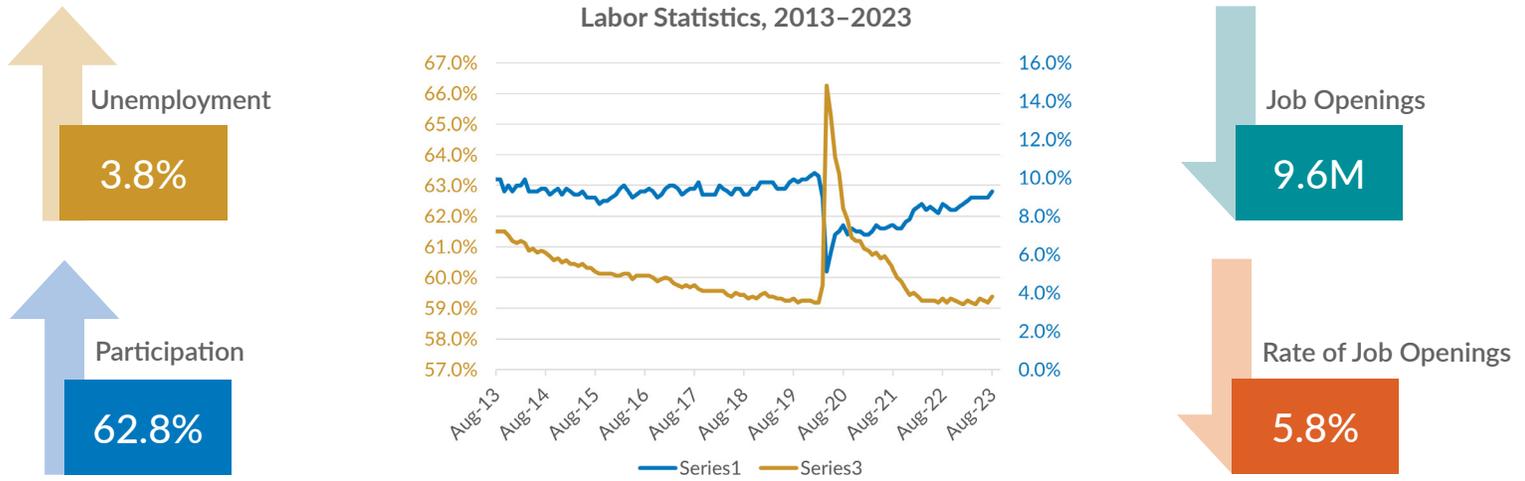
## Deliveries & Demolitions



# Economy

Many economic professionals predict a recession this year as a result of pulled-back consumer spending and decreased business investment. This is a direct result of higher borrowing costs and weakening demand for consumer goods. The Federal Reserve has raised lending rates by 525 basis points from near zero in March 2022, marking the most aggressive tightening program in history.

## National Labor Statistics



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# About Plante Moran Realpoint

Plante Moran Realpoint offers unbiased advocacy for companies looking to lease, buy, build, or develop a comprehensive real estate strategy that will align their company goals and real estate. Here's how we serve office space users:

 <p><b>Tenant &amp; Buyer Representation</b></p> <ul style="list-style-type: none"> <li>Portfolio Optimization</li> <li>Site Selection</li> <li>Lease Administration</li> <li>Incentives</li> </ul>	 <p><b>Owner's Representation</b></p> <ul style="list-style-type: none"> <li>Program Management</li> <li>Team Selection</li> <li>Master Budget &amp; Schedule</li> </ul>	 <p><b>Real Estate Consulting</b></p> <ul style="list-style-type: none"> <li>Strategic Planning</li> <li>Due Diligence</li> <li>Programming/Benchmarking</li> </ul>
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# Contact

To learn more about your real estate market or to discuss your company's real estate needs, contact us today.

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